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SUBJECT: SUPPLY ISSUES LEAD TO POWER CUTS IN HCMC

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[¶1.](#) (SBU) Summary: The power went out in parts of Ho Chi Minh City last week, as the energy demanded by a booming economy outstripped supply. Electricity shortages muddy Vietnam's efforts to attract investment and directly impact U.S. businesses, so on April 2 the Ambassador visited the source of 40 percent of Vietnam's electricity -- Ba Ria-Vung Tau province's Phu My power generation complex. Shrinking reservoirs, power plant mechanical failures, inefficient transmission and dysfunctional pricing mechanisms triggered the recent outages. State-owned Energy of Vietnam's monopolistic behavior and speculative forays into non-energy sectors such as telecommunications and real estate also threaten to prolong the energy shortage and constrain economic growth. End Summary.

Lights out Saigon

[¶2.](#) (U) A wave of blackouts hit Ho Chi Minh City with the first of a predicted series of power outages that are expected to worsen in coming months. The city center and most industrial zones were spared but urban and suburban districts, which are home to millions of people and thousands of light manufacturing and retail outlets, lost power for 12 hours on March 15 and 16, and again on March 20. Street lights throughout the city have dimmed, and many small business owners and shopkeepers are purchasing diesel generators. Garment exporters and other manufacturers located outside HCMC's industrial zones tell us that prolonged shortages would threaten their existence.

Demand Outstrips Supply

[¶3.](#) (SBU) "There is no slack in the system," the Phu My III power plant general manager told the Ambassador on April 2nd, "and beyond the few new plants like Ca Mau I there isn't much capacity coming on line anytime soon." Just upstream, the Nam Con Son gas pipeline general manager also confirmed that the BP-ConocoPhillips-PetroVietnam joint venture continues to supply its capacity of nearly 15 million cubic meters per day to the Phu My power generation complex. An expansion currently underway should increase pipeline capacity to 20 million cubic meters per day by the end of 2008.

[¶4.](#) (SBU) National energy consumption in February increased 16 percent year on year (and GVN expects consumption to continue to grow at that rate through 2015), while production failed to keep pace. HCMC, like the country as a whole, is powered by a mix of hydroelectric and thermal plants. Water shortages nationwide

have crimped hydroelectric capacity in recent years, new thermal plants have suffered delays in coming on-line, and occasional shortages of natural gas have decreased power production. The long-awaited 750MW capacity Ca Mau I thermal power plant in Vietnam's southernmost province broke down during trial runs on March 10. These setbacks, along with mechanical disruptions such as a failed turbine blade at one of Phu My's gas-fired plants, triggered the current wave of outages in HCMC.

No Energy Market Means Buy High, Sell Low

15. (SBU) While technical difficulties and a lack of rain are the immediate causes of the current power outages, the problem is compounded by the fact that Vietnam's long-term energy strategy is in the hands of state-owned energy producer Electricity of Vietnam (EVN). EVN is plugging short-term gaps with expensive (\$0.45 per kilowatt hour kWh) power imported from China, and the GVN's Electricity Master Plan VI (approved July 2007) does call for 136 new power projects by 2015 and deregulation of the entire power generation market by 2020.

16. (SBU) At \$0.05 per kWh, Vietnam's current retail prices are below market rates; however, the GVN plans to begin removing price restrictions in 2009 in order to attract private investors. As a reference point, electricity costs \$0.12 per kWh in Singapore. "The economics are clear and everybody understands them, but this is not a purely economic issue" the Phu My III plant manager confirmed.

17. (SBU) "This happened to every country: China, the Philippines, Indonesia and Thailand," the Phu My III manager continued, "and every country finds its own solution." He predicted that over the next few years, Vietnam's industrial parks will increasingly purchase large capacity generators to backstop the national grid, as they did in the 1990s during Vietnam's last power crunch. Eventually, market pricing will draw interest to Vietnam and already opportunities for potential investors, like the GVN's ongoing discussions with AES, are

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emerging for cheap coal-fired power generation.

State Monopoly Stiffs Private Energy Sector, Goes Shopping

18. (SBU) Private energy analysts and the local media have criticized EVN's failure to buy cheap surplus power from private suppliers, as well as its forays into Vietnam's speculative real estate market. EVN's decision to purchase expensive Chinese power instead of excess capacity from either the Hiep Phuoc plant (Vietnam's first 100% foreign Build Own Operate plant located in HCMC's premier industrial park) or from Formosa Corporation's coal-fired facility in neighboring Dong Nai province has been criticized by the press. Private energy analysts consider the formation of mobile phone service provider EVN Telecom, as well as the construction of golf courses and luxury hotels by EVN's four real estate companies, to be unproductive diversions from EVN's core functions.

Comment

19. (SBU) Rapid economic growth and the attendant surge in energy demand have stretched Vietnam's power generation capacity to its limit. EVN's monopolistic tendencies and habit of diverting resources outside its core energy functions have exacerbated the situation. Much depends on scheduled reforms; the GVN must succeed in establishing a competitive market for power generation or risk stalling the growth of Vietnam's electricity production and the economic growth it fuels. Mission actively presses the GVN to improve transparency in order to create real opportunities for U.S. companies to participate in Vietnam's energy industry. End Comment.

10. (U) This cable was coordinated with Embassy Hanoi.
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